

# **PRESQUE ISLE DISTRICT LIBRARY**

**Financial Statements  
For the Year Ended December 31, 2004**

**PRESQUE ISLE DISTRICT LIBRARY  
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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>PRESQUE ISLE DISTRICT LIBRARY</b>	County <b>PRESQUE ISLE</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>9/8/05</b>	Date Accountant Report Submitted to State: <b>9/12/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

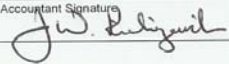
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>J.W. KIELISZEWSKI CPA PC</b>			
Street Address <b>476 NORTH THIRD ST</b>	City <b>ROGERS CITY</b>	State <b>MI</b>	ZIP <b>49779</b>
Accountant Signature 		Date <b>9/12/05</b>	

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Presque Isle District Library  
Rogers City, Michigan

I have audited the accompanying financial statements of the Presque Isle District Library, State of Michigan (the "Library") as of and for the year ended December 31, 2004, which comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

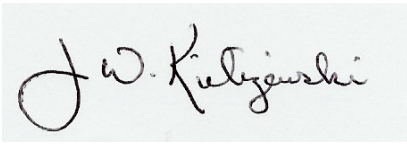
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Library as of December 31, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of December 31, 2004.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Library's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplemental information have not been subjected to the

auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

A handwritten signature in dark ink, reading "J. W. Kuligowski". The signature is written in a cursive style with a large initial "J" and "W".

Rogers City, Michigan  
September 8, 2005

**PRESQUE ISLE DISTRICT LIBRARY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

To Auditor: June 23, 2005

**Using this Annual Report:**

This annual report consists of three parts, including *Management's Discussion and Analysis* ("MD&A", the current section), the *Basic Financial Statements*, and *Required Supplementary Information*.

- The financial statements will not be comparative with prior years since this is the Library's first GASB reporting year; however, and MD&A may use some comparisons in order to make the financial state of the Library clearer.
- An independent auditor audits the Library each fiscal year; thus, the financial portion of this report will be independent, with additional comments provided by management in this section.
- No charts and graphs will be included in this first year MD&A.

**The Library as a Whole:**

This section of the MD&A will include the elements such as: a brief discussion of the basic financial statements; analysis of the Library's overall financial position and results of operations; analysis of significant budget variations; and discussion of currently known facts, decisions, or conditions affecting the Library.

- The Library has 3 branches in addition to the administrative location and can be classified as small/moderate in size.
- Circulation is up and a new software program allowing online real time access to more than 20 other libraries has recently been installed. Technology has increased drastically in the past few years including a new wireless access equivalent to a T-1 line.
- Revenue is obtained through state aid, penal fines, local government revenues, interest revenues, local donations and bequests, material fines and lost book charges and government and/or private grants.
- Local government revenues in the form of a .75 assessed mill provides 70% of the library revenues compared to 67% from the previous year. This .75 mill was approved by a 2/3 vote, which shows that the Library is popularly supported by the communities serviced and is a sign of a healthy library.
- State aid was decreased in 2004. An additional increase was anticipated for 2005 but was postponed until 2006.
- Penal fines have regained somewhat in 2004 but appear to be decreasing again in 2005.
- Overall income was up from the previous year due to the sale of some property that had been purchased by the library some years ago. No layoffs were necessary this year as in 2003 where one person was laid off from January until May. That person has since returned to work.

- Salary expense was higher due to added hours because of training for the new software system. Also, one additional person was hired.
- We ended this fiscal year with a strong contingency of around \$50,000. The actual amount left at the year end was almost \$120,000, which includes more than \$80,000 donated by a local benefactor and the sale of property owned by the Library.
- There is no long-term debt as of June 23, 2005.
- The Library is in better financial shape today than it has ever been. Programming is up, local support is up (two major gifts within the past 5 years totaling more than \$700,000), grant revenue is up and local gifts and donations are up.

### **Individual Fund Analysis:**

#### **Checking Account**

- Shows a balance of \$16,218.22. Cash flow was healthy at year-end and there was no delay in paying bills as has been necessary in past years.

#### **Johnson Bequest Fund**

- No significant changes in this account.
- This fund is the result of a bequest made by a local resident who left a considerable sum of money to the library with restricted usage. No operational expenses can be paid with this money. It has been and can be used for education, books or other materials, shelving, furniture and equipment, and building or building improvements.
- Year-end balance was \$422,293.66.

#### **Henry & Margaret Hoffman Fund**

- This fund was created as the result of a bequest made by a local resident who left a little more than \$80,000 to the Library.
- The current balance of this account is \$85,349.40, which has been increased due to added interest earned.

#### **Accounts Receivable**

- Only a small amount of outstanding amounts due the Library. Ending balance of \$1,452.51. No significant changes.

#### **Petty Cash**

- This fund is \$50 at the year-end and is as it should be. All expenses were accounted for by receipt (see audit). Mostly used for mailing packages or small emergency purchases.

#### **Liabilities & Equity**

- Current liabilities show no significant changes from previous years other than slight increase in salary liabilities. Other expenses were much the same except for a reduction in the cost of our wide area network due to a change to wireless.
- There are no long-term liabilities as of today's date.

## **Director's Annual Year-End Report 2004**

### **Highlights from the year:**

#### **January**

Bev Brougham was officially appointed to represent Onaway on the Board of Trustees.

The ON Friends agreed to purchase a new series of books called the "We Can Read" series to encourage parents to read along with their children.

Posen getting ready to go wireless.

Hoffman Estate leaves 5% to Library – more than \$80,000 (\$81,003.06).

Training for SIRSI has been completed.

#### **February**

Went live with SIRSI and things seem to be going well.

Working on GASB and a new Technology Plan.

Internet connection problem worked out in Posen. Speed Net changed some equipment and things have been working more smoothly.

#### **March**

Bar coding is almost complete.

Technology Plan has been approved by the State of Michigan through 2006.

Onaway Friends have agreed to pay for a new audit rack to accommodate the growth in the Onaway location. They have also agreed to pay half of the cost of materials for moving Kathy's office, which would leave us a balance of \$335 plus Don's labor to put the walls up (Kathy suggested we not replace her office and this seems to be working out well).

Advertisement is ready to go for the Grand Lake Branch.

#### **April**

Bar coding of the books is complete except for actually putting the physical barcodes on the books.

Phyllis will resign her position the first week in June.



New shelving for Onaway has arrived.

## **May**

Wenonah Street property sold.

## **June**

Summer reading program had almost 30 participants in Onaway; great overall turnout, except for Grand Lake. We will troubleshoot this area before next year and see if the numbers can be increased.

We have gone wireless.

Put in a request to Northland for an additional \$17,253.00 from grant – Library of Michigan has approved this.

## **July**

Computer classes have begun in Onaway and started out with 8 signed up; 6 showed up the first week and 2 the next. We will try again later.

First Management Team meeting was in Posen this month and it was very productive.

Received the \$2,803 and the \$14,450 reimbursements for supplies and hours spent on the SIRSI project from Northland. Also, penal fines for the quarter have come in and they appear to be up from last year.

## **August**

Onaway Library will be receiving 8 Laptop computers as a result of the grant and programming between the Library and the school media center will begin sometime in September (LibLink).

Grand Lake finally has their fax back and their wireless has been installed so they are once again feeling connected to the world.

Tom Moran has delivered the stone for our humanities grant.

At Rogers City we are reorganizing some positions.

## **September**

Onaway Circulation desk has been moved.

## **October**

Job descriptions for Carolyn and Jan have been completed. Working with Bev on others.

Analysis of the budget is complete.

## **November**

No report; Director on vacation.

## **December**

Onaway shelving has been installed.

Circulation desk is in place and operating great; looks very nice there.

Kenya Cleaver has filled the page position in Onaway.

Preliminary plans for Grand Lake Building finished and presented at Friends meeting.

Chinese Children's Art display at Rogers City and now Onaway.

Received a grant for \$15,000 and another for \$2,000 for programming.

## **Year-end Comments:**

Finances are in great shape for 2004 and I anticipate great things to come. There will be a decrease in State aid in 2006 but next year's figures will remain the same.

Total Fund Balance this year was almost \$535,000 thanks to the Hoffman bequest and the sale of the Wenonah street property. Even with both of these deducted from that amount we still have a fund balance of more than \$425,000. Penal fines were up and I anticipate an increase again in 2005. This will make up for our loss in State aid funds. We will not have USF funds this coming year because of a glitch in electronic filing and a very unforgiving program; however, we are finally totally wireless and we will not have the cost of Merit, which took up a large portion of our telephone and communications budget. We have been approved for 2005 and should receive funds in 2006 provided funding remains intact for this program.

Overall, it has turned out to be a very good year and I anticipate even more support from our community in 2005.

Respectfully submitted,

Janis K. Stevenson, Director

**PRESQUE ISLE DISTRICT LIBRARY**  
**Governmental Funds**  
**Balance Sheet/Statement of Net Assets**  
**For the Calendar Year Ended December 31, 2004**

	General Fund		
	Modified	Adjustments	Statement of
	<u>Accrual Basis</u>	<u>(Note 8)</u>	<u>Net Assets</u>
<b>Assets</b>			
Cash and investments (Notes 2 & 4)	\$ 543,911	\$ -	\$ 543,911
Accounts receivable	1,453	-	1,453
Fixed assets (Notes 2 & 5)	<u>-</u>	<u>1,028,833</u>	<u>1,028,833</u>
Total assets	<u>545,364</u>	<u>1,028,833</u>	<u>1,574,197</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	10,989	-	10,989
Accrued interest payable	-	634	634
Long-term liabilities: (Note 6)			-
Installments payable, due within one year	<u>-</u>	<u>220,428</u>	<u>220,428</u>
Total liabilities	<u>10,989</u>	<u>221,062</u>	<u>232,051</u>
<b>Fund Balance / Net Assets</b>			
Fund Balance - Unreserved			
Designated for capital improvement	422,294	(422,294)	-
Undesignated	<u>112,081</u>	<u>(112,081)</u>	<u>-</u>
Total fund balance	<u>534,375</u>	<u>(534,375)</u>	<u>-</u>
 Total liabilities and fund balance	 <u>\$ 545,364</u>		
 Net Assets:			
Invested in capital assets, net of related debt		807,771	807,771
Restricted for donor-restricted purpose		422,294	422,294
Unrestricted		<u>112,081</u>	<u>112,081</u>
Total net assets		<u>\$ 1,342,146</u>	<u>\$ 1,342,146</u>

See Notes to Financial Statements.

**PRESQUE ISLE DISTRICT LIBRARY**  
**Statement of Governmental Revenue, Expenditures and Changes in Fund Balance /**  
**Statement of Activities**  
**December 31, 2004**

	General Fund Modified <u>Accrual Basis</u>	Adjustments (Note 8)	Statement of Activities
<b>Revenue</b>			
Property taxes	\$ 341,314	\$ -	\$ 341,314
State aid	13,930	-	13,930
Penal fines	56,282	-	56,282
Interest on investments	21,254	-	21,254
Contributions and donations	82,864	-	82,864
Library fines and fees	6,551	-	6,551
Other miscellaneous	<u>44,275</u>	<u>-</u>	<u>44,275</u>
Total Revenue	566,470	-	566,470
<b>Expenditures</b>			
Salaries and fringe benefits	247,690	-	247,690
Supplies	28,390	-	28,390
Library books and materials	47,605	(47,605)	-
Professional and contractual services	18,341	-	18,341
Conferences, workshops, and travel	5,219	-	5,219
Insurance and bonds	4,129	-	4,129
Utilities	31,672	-	31,672
Rent	21,132	-	21,132
Building repair and maintenance	14,857	-	14,857
Capital outlay	3,066	(3,066)	-
Depreciation	-	131,937	131,937
Debt service:			
Principal	12,593	(12,593)	-
Interest	<u>11,967</u>	<u>634</u>	<u>12,601</u>
Total Expenditures	<u>446,661</u>	<u>69,307</u>	<u>515,968</u>
<b>Excess of Revenue Over Expenditures/ Change in Net Assets</b>	119,809	(69,307)	50,502
<b>Fund Balance/Net Assets - Beginning of year</b>	<u>414,566</u>	<u>877,078</u>	<u>1,291,644</u>
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 534,375</u>	<u>\$ 807,771</u>	<u>\$ 1,342,146</u>

See Notes to Financial Statements.

## **PRESQUE ISLE DISTRICT LIBRARY**

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

#### **NOTE 1 – REPORTING ENTITY AND BASIS OF PRESENTATION**

##### **Definition of the Reporting Entity**

The Presque Isle District Library (the “Library”) was established May 19, 1992 pursuant to Act No. 24 of the Public Acts of 1989 (MCL 397.171), known as “The District Library Establishment Act.”

The district of the Library consists of the entire geographic area of Presque Isle County. The Library provides library services to the residents of the district and enters into contracts to provide library services to municipalities outside the district, such as Forest and Waverly Townships in Cheboygan County, Michigan.

The Library is governed by a Board, which consists of seven (7) members. The Mayor of the City of Onaway, with the approval of City Council, appoints one board member from the Onaway area for a term of four (4) years. The Presque Isle Township Supervisor, with the approval of the Township Board, appoints one board member from the Grand Lake area for a term of four (4) years. The Posen Township Supervisor, with the approval of the Township Board, appoints one board member from the Posen area for a term of four (4) years. The Presque Isle County Board of Commissioners appoints three (3) board members for terms of four (4) years each, two of whom represent the areas of the county without a branch library and one represents the Rogers City area. The Mayor of the City of Rogers City, with the approval of City Council, appoints one board member from the City of Rogers City for a term of four (4) years.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Library. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, the Library has no component units.

##### **Basis of Presentation**

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net assets and the statement of activities on a full accrual basis.

## **Fund Financial Statements**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Library, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds, which are maintained in accordance with the activities or objectives specified.

The financial activities of the Library are recorded in one fund as follows:

### **Governmental Fund:**

**General Fund:** This fund accounts for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes and penal fines. This fund includes the general operating expenses of the Library.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

### **GASB No. 34**

Effective January 1, 2004, the Library implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion on Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library’s activities.

These and other changes are reflected in the accompanying financial statements (including Notes to Financial Statements).

### **Measurement Focus / Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made,

regardless of the measurement focus applied. The accounting policies of the Library conform to generally accepted accounting principles as applicable to governmental units.

**Governmental Fund** – The Governmental Fund Type (General Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

### **Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturity of three months or less when acquired.

### **Investments**

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

### **Current property taxes**

Properties are assessed as of December 31 and the related property taxes become a lien on December 1. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The December 2003 State equalized valuation of the Library totaled \$701,972,974. The State taxable valuation of the Library totaled \$480,165,405 on which ad valorem taxes levied consisted of .7127 mills raising \$345,551 for operating purposes.

### **Capital Assets**

Capital assets are defined by the Library as assets with an initial cost of more than \$1,00 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Furniture and Equipment	5-15 years
Building Improvements	30 years
Library books and materials	3-15 years

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgets and Budgetary Accounting**

The budget of the General Fund is legally adopted through a Board resolution prior to the beginning of the budgetary year. There were three amendments to the original budget during the year. The encumbrance method of budgeting is not used. Any unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device for the General Fund. Budgets are prepared on a modified accrual basis, which is in conformity with generally accepted accounting principles.

### **Excess of Expenditures Over Appropriations in Budgeted Funds**

The Uniform Budgeting and Accounting Act (PA 2 of 1968, as amended; MCL 141.421 et seq.) provides that expenditures shall not be incurred in excess of the amount appropriated. The Library's budgeted and actual expenditures for the funds budgeted have been shown on a functional basis.

The Library incurred no such excess of expenditures in budgeted funds in excess of the amounts appropriated for the current year.

### **Accumulated Fund Deficits**

The Library had no funds with an accumulated fund balance/retained earnings deficit at December 31, 2004.



#### **NOTE 4 – CASH AND CASH INVESTMENTS**

Deposits are carried at cost. Deposits are in three financial institutions in the name of the Library. The Library's investment policy authorizes the Library Treasurer to invest in the following types of securities:

- A. Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but the Library shall not deposit or invest funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- C. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.65 State / 890.15 ISC 9a1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- D. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 2129.111 to 129.118; or
- E. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

At year-end, the carrying amount of the Library's deposits were \$543,861 and the respective bank balance totaled \$544,524, of which \$221,567 was covered by Federal Depository Insurance. The difference between the carrying amount of the Library's deposits and the respective bank balance represents checks written during the year but not yet presented for payment. The Library also had \$50 in imprest cash at year-end. All of the Library's deposits were made in accordance with the investment policy.

## **NOTE 5 – CHANGES IN GENERAL FIXED ASSETS**

A summary of changes in general fixed assets follows:

	Balance <u>1/1/2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2004</u>
Land and Land improvements	\$ 54,573	\$ -	\$ 40,000	\$ 14,573
Building	425,000	-	-	425,000
Building Improvements	104,202	-	-	104,202
Computers	65,800	3,066	-	68,866
Furniture and Equipment	112,749	-	-	112,749
Library books and Materials	<u>765,000</u>	<u>47,605</u>	<u>16,452</u>	<u>796,153</u>
Total	1,527,324	50,671	56,452	1,521,543
Accumulated Depreciation	<u>(387,225)</u>	<u>(131,937)</u>	<u>(16,452)</u>	<u>(502,710)</u>
Net Book Value	<u>\$ 1,140,099</u>	<u>\$ (81,266)</u>	<u>\$ 40,000</u>	<u>\$ 1,018,833</u>

## **NOTE 6 –LONG-TERM DEBT**

### **Construction Loan / Installment Loan – Independent Bank**

During the construction period the Library borrowed \$230,150 from Independent Bank, secured by a \$230,000 certificate of deposit held by the same bank. The terms of the loan provided the bank to charge approximately 1% over the certificate rate. The construction note was converted to an installment note payable on February 22, 2002 in the amount of \$255,000, payable monthly at a rate of \$2,046.69, including 5.18% interest with a balloon payment of \$202,351 due February 10, 2005. The balance of payments of principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$220,428	\$1,962	\$222,390

A summary of changes in general long-term debt follows:

	Balance <u>1/1/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/04</u>
Installments Payable	\$233,021	-0-	\$12,593	\$220,428

## **NOTE 7 – RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefits provided to employees.

The Library's coverage on general liability is \$1,200,000, with a liability limit of \$1,200,000. The Library's coverage on books, audio, video, software and equipment is a blanket replacement cost policy for all locations with a maximum coverage of \$2,400,000 with no individual location limits after a \$1,000 deductible per occurrence. The Library's coverage on public officials is covered by the appointing municipal entity and is not duplicated by the Library. Real estate is insured for replacement value with a current maximum value of \$544,000 for a complete loss. Any liability for losses which exceed these amounts would remain with the Library.

## **NOTE 8 – RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund balance and the net change in fund balance of the Library's governmental fund differs from the net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in assets:

Total Fund Balance - Modified Accrual Basis	\$ 534,375
Amounts reported in the Statement of Net Assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	<u>807,771</u>
Net Assets of General Fund - Full Accrual Basis	<u>\$ 1,342,146</u>

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Net Change in Fund Balances - Modified Accrual Basis	\$ 119,809
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Amounts reported in the Statement of Activities are different because:

Capital outlays are reported as expenditures in Statement of Revenue, Expenditures and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as Depreciation:

Library books and materials	47,605
Capital outlay	3,066
Depreciation	(131,937)
Long-term debt payment	<u>11,959</u>

Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ 50,502</u>
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**NOTE 9 – COMPENSATED ABSENCES**

There are no compensated absences provided by the Library, which would require disclosure under GASB Codification §C-60.

**NOTE 10 – PENSION PLAN**

The Library does not provide a pension plan.

**PRESQUE ISLE DISTRICT LIBRARY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Calendar Year ended December 31, 2004**

	<u>Budget</u>	<u>Actual Balances</u>	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Property taxes	\$ 341,314	\$ 341,314	\$ -
State aid	13,930	13,930	-
Penal fines	56,282	56,282	-
Interest on investments	15,851	21,254	5,403
Contributions and donations	82,864	82,864	-
Library fines and fees	6,551	6,551	-
Other miscellaneous	<u>43,774</u>	<u>44,275</u>	<u>501</u>
Total Revenue	560,566	566,470	5,904
<b>Expenditures</b>			
Salaries and fringe benefits	247,780	247,690	90
Supplies	33,150	28,390	4,760
Library books and materials	47,615	47,605	10
Professional and contractual services	18,341	18,341	-
Conferences, workshops, and travel	5,219	5,219	-
Insurance and bonds	4,129	4,129	-
Utilities	31,672	31,672	-
Rent	21,132	21,132	-
Building repair and maintenance	14,857	14,857	-
Capital outlay	3,066	3,066	-
Depreciation	-	-	-
Debt service:			
Principal	12,593	12,593	-
Interest	<u>11,967</u>	<u>11,967</u>	<u>-</u>
Total Expenditures	<u>451,521</u>	<u>446,661</u>	<u>4,860</u>
<b>Excess of Revenue Over Expenditures/ Change in Net Assets</b>	109,045	119,809	10,764
<b>Fund Balance/Net Assets - Beginning of year</b>	<u>414,566</u>	<u>414,566</u>	<u>-</u>
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 523,611</u>	<u>\$ 534,375</u>	<u>\$ 10,764</u>

September 8, 2005

Honorable Board Members  
Presque Isle District Library  
Rogers City, Michigan

### **LETTER OF COMENTS AND RECOMMENDATIONS**

In connection with my recent examination for the Presque Isle District Library's financial statements for the fiscal year ended December 31, 2004, I tested the internal accounting controls, reviewed significant accounting policies and procedures and certain financial and administrative practices for the purposes of determining the scope of my examination.

Since my review of the system of internal control was made to enable me to express an opinion of the financial statements, it would not necessarily disclose all weaknesses in the system that may exist.

The following comments and observations are related to the Presque Isle District Library's accounting and certain other practices that came to my attention during the course of my audit.

#### **1. General Ledger Improvements**

The Library maintains a combined general ledger accounting system for all activities. Based on the requirements of the District Library Establishment Act, the Library is required to follow the accounting rules for Michigan governments, namely Fund Accounting. This groups all accounting and reporting into various funds based on specific activities and objectives and utilizes the State Chart of Accounts. In performing the audit, we currently separate the general ledger into the appropriate funds.

#### **Recommendation**

A review of the current accounting system should be completed to determine if separate fund accounts could be maintained utilizing the State Chart of Accounts. An exploration of available software for Fund Accounting may be appropriate.

## 2. **Internal Controls**

During the course of my audit of the basic financial statements of the Library, I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements, namely:

The relatively small number of people involved in the accounting functions of the Library makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties, and we note this item here only to maintain the Board's awareness of this limitation in their internal controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

The foregoing is a communication required by Statement of Auditing Standards No. 60.

## 3. **Acceptance by Board of Audited Financial Statements**

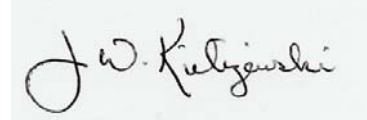
It is recommended that these Audited Financial Statements and Recommendations be accepted by the Board by a motion similar to the following:

"Moved by \_\_\_\_\_ and seconded by \_\_\_\_\_,  
that the 2004 Audited Financial Statements be accepted as presented and that,

insofar as possible, the recommendations made by our auditor in his Letter of Comments and Recommendations be followed.”

I would like to take this opportunity to thank the Library staff for their help and consideration in performing this audit. I will be available for review of these comments and recommendations as well as other matters.

Respectfully submitted,

A handwritten signature in black ink, reading "J.W. Kieliszewski". The signature is written in a cursive style with a large, looped initial "J".

J.W. Kieliszewski